IIGCC and TPI publish investor-led framework of pilot indicators to assess banks on the transition to net zero

- IIGCC and investor members of its banks working group together with the Transition Pathway Initiative are developing a net zero assessment framework for banks.
- Latest analysis of 27 banks suggests the banking sector needs to substantially accelerate its decarbonisation efforts to align with a 1.5°C pathway.
- Current pilot indicators will be further refined before the publication of a final framework later this year.

The Institutional Investors Group on Climate Change (IIGCC) in collaboration with the Transition Pathway Initiative (TPI) has published an investor-led framework of pilot indicators to assess banks on the transition to net zero (Download report here).

The latest work follows the establishment of a banks working group by IIGCC to help investors assess how prepared banks are for the low-carbon transition and the subsequent investor expectations for banks published in April 2021.

The need for an assessment framework for banks is underpinned by investors wanting to manage their own net zero alignment and stewardship of portfolio companies (which frequently includes banks), as well as recognition of the critical role banks have in helping deliver global decarbonisation through their activities.

Initial findings: a sector in transition but with a long way to go

Used to assess 27 banks, the current framework of pilot indicators is organised into six key areas – net zero commitments; short- and medium-term targets; decarbonisation strategies; climate governance; climate policy engagement; and audit and accounts – that show while the banking sector has started its transition towards net zero, it still has a long way to go to align with a 1.5°C pathway. All analysis is based on disclosures published up to 25th February 2022 only.

Across the six areas covered by the pilot indicators, the 27 banks performed best on climate governance ('Evaluating how a bank incorporates climate strategy into its governance structure and remuneration policies'), aligning with just under half (44%) of the sub-indicators in this area.

Conversely, the 27 performed worst on climate policy engagement (no bank publishes a position statement that pledges to conduct all direct lobbying activities in line with the goals of the Paris Agreement) and on audit and accounts (none comprehensively incorporates material climate-related matters into its financial accounts).

Decarbonisation strategy – the area containing the most indicators and sub-indicators – assesses the actions taken by banks to deliver on their financed emissions reduction targets. While some banks are making steps to develop and implement a decarbonisation strategy, with most progress made in setting milestones to scale up green finance, collectively they have yet to establish financing conditions that enforce accelerated decarbonisation efforts.

Stephanie Pfeifer, CEO, IIGCC: "The emerging picture, based on pilot indicators, is of a banking sector that needs to substantially accelerate its decarbonisation efforts to align with a 1.5°C pathway. Given the integral role banks play in directing capital across entire economies, aligning banks' activities with net zero is key to delivering global decarbonisation."

“For investors considering their own net zero alignment and stewardship of portfolio companies, it is critical that they have sufficient information on companies’ transition planning, including banks. The final framework – which we look forward to publishing later this year – will provide investors with a comprehensive picture of banks’ net zero transition plans and can be used to support engagements with the banks in their portfolios.”

TPI Research Team led by professor Simon Dietz, Grantham Research Institute on climate change and the environment, London School of Economics: “The results from our pilot assessments clearly show an industry shift in the banking sector. Banks have increasingly committed to net zero targets for their financed emissions – our pilot assessments find that 18 out of 27 banks set 2050 net zero commitments. However, banks have yet to show how they plan to meet these net zero targets. For example, banks’ targets often omit large portions of their portfolios (such as underwriting and advisory) and exclude certain high-emitting sectors. Banks’ policies often still allow for continued finance to carbon-intensive activities such as coal mining and deforestation, and evidence of engaging with high emission companies on transition plans is sparse.”

“At this early stage, the pilot assessments should be seen by investors as a baseline for engaging with and supporting banks in their decarbonisation efforts. Leaps in progress will need to be made in the coming years if banks are to be on track to 1.5C alignment across their portfolios.”

Natasha Landell-Mills, Head of Stewardship, Sarasin & Partners and co-chair of the IIGCC banks working group said: “The framework of pilot indicators published today outlines an ambitious set of expectations for global banks to be considered net zero aligned. It also underlines that banks still have a long way to go to ensure they are the catalysts for climate action that we need them to be. The level of urgency must ratchet up. We hope this report will help to guide more robust action by banks and more determined engagement by investors to get us where we all need to be.”

Miguel Cuunjieng, Associate Director - Engagement, EOS at Federated Hermes and co-chair of the IIGCC banks working group: “While the banking sector has made great strides by setting long-term ambitions in support of the low-carbon transition, there is much work to be done to establish the near- and medium-term pathways forward. The final framework can both help investors assess how banks are progressing with respect to these near- and medium-term strategies and targets, and allow investor engagements to transition from high-level and strategic, to tactical and practical.”

Adam Matthews, Chair of TPI & Chief Responsible Investment Officer for Church of England Pensions Board: “Robust transparency will be key for banks to gain the confidence that they are delivering on their net zero commitments. TPI working closely with the major institutional shareholders of many of the largest banks have provided a comprehensive pilot assessment that should be the basis for a deep engagement with banks individually and collectively. I congratulate those involved and TPI will now look to routinely assess banks as part of its future work. Banks have a very prominent role in the transition and as such it is important that asset owners have a lens that can assess if they are delivering on their commitments.”

Disclaimer: The framework of pilot indicators has been developed in collaboration and consultation with a number of IIGCC members via its banks working group. It is not reflective of all members’ views nor have all members participated its development to date.

– ENDS –

Media contact

Ross Gillam, Head of Media Relations, IIGCC

rgillam@iigcc.org

+44 (0)738 850 6013

About IIGCC

The Institutional Investors Group on Climate Change (IIGCC) is the European membership body for investor collaboration on climate change and the voice of investors taking action for a prosperous, low carbon future. IIGCC has more than 375 members, mainly pension funds and asset managers, across 23 countries, with over €51 trillion in assets under management.

IIGCC works to support and help define the public policies, investment practices and corporate behaviours that address the long-term risks and opportunities associated with climate change. For more information visit www.iigcc.org and @iigccnews.

About the Transition Pathway Initiative

The Transition Pathway Initiative (TPI) is a global initiative led by asset owners and supported by asset managers, established in January 2017. Aimed at investors, it assesses companies' progress on the transition to a low-carbon economy, supporting efforts to address climate change. Over 130 investors globally, representing more than US$50 trillion combined Assets Under Management and Advice, had pledged support for TPI as of June 2022. The Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science (LSE) is TPI's academic partner. The Institute has developed the pilot indicators, provides company assessments, and hosts the online tool. FTSE Russell is TPI's data partner. FTSE Russell is a leading global provider of benchmarking, analytics solutions and indices.